



Chapter 6: Value Engineering

Seattle District, NWS

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Chapter 6

Value Engineering

1. General. Your contract may contain a value engineering incentive clause (Contract Clause entitled “VALUE ENGINEERING-CONSTRUCTION”). This clause offers you an opportunity to increase your income. At the same time, you can help produce maximum value for our tax dollars.

2. Scope. The Corps of Engineers Value Engineering (VE) program typically involves savings during design prior to contract award, plus savings originated by contractors after award. We encourage your participation.

3. Objective. The objective of value engineering is good value. To achieve this objective, each component or item in a project must perform its basic function at minimum cost. Value Engineering Change Proposals (VECPs) must provide equivalent or superior project quality, reliability and life expectancy without increasing maintenance and operating costs.

4. Criteria. Modifications proposed under the VE clause must meet four criteria:

- a. Require a change in the contract
- b. Reduce the contract price
- c. Provide equivalent function without increased operations or maintenance costs or increased environmental impacts
- d. Achieve savings by methods other than deleting work. For example, if three widgets will perform as well as four specified widgets, this change would not qualify as a VECP.

5. Approval. Before proceeding with a VECP, you should discuss the concept with the Administrative Contracting Officer (ACO) assigned to the contract. This discussion will establish the potential for Government acceptance of the idea and may enable you to avoid wasting effort on unacceptable changes. This informal discussion will not commit you or the Contracting Officer to submittal, approval or rejection.

After such discussion, if the idea still looks good to you, submit the proposal, in a serialized letter directed to the ACO. Keep in mind that you and the Government incur costs to review and implement VECPs. If you idea will not save at least \$10,000, it may not be worth the cost of processing the change.

6. Government Review. You will note that the Government has no liability for delays in processing, and that you may withdraw a VECP at any time prior to acceptance by the Government. This means that early and complete submittal of VECPs is advantageous. Depending on the complexity of the proposal, Government review and approval may require 45



days or more, but every effort will be made to expedite processing. Coordinating prior approval of the concept usually speeds the process.

7. VECP Submission. The VE clause requires seven items of information be included in your submission:

a. Description. A clear, concise description of the difference between the existing contract requirement and the proposed change, with specific advantages of the change. For the design-build contracts, the proposal must show savings to criteria in the government's contract Request for Proposal – not the contractor's accepted proposal or design.

b. Requirements. An itemization of the requirements of the contract which must be changed if the proposal is adopted, and a recommendation as to how to make each such change. Generally, this would include reference to specific contract drawing numbers and/or specific paragraphs in the specifications. You, the contractor, must accurately and completely write all proposed changes to drawings and specifications required if your proposal were incorporated into the contract. Failure to write a quality scope of change typically slows the approval process.

c. Cost Estimate. A detailed cost estimate for before and after the change. The breakdown of "before" and "after" costs will be in sufficient detail to be readily comparable to a Government estimate. A contract modification will result from adoption of a VECP; thus the cost information must be complete. The proposal shall include estimates of your costs for development and implementation. Development and implementation costs DO NOT include normal overhead costs, such as salaries of overhead personnel and other items already covered by contract award. Development and implementation costs include real added costs, such as travel costs to have a factory representative come to the site to evaluate existing conditions. Your original profit on the contract will be not reduced by the VECP, even though the contract price is reduced. However, be sure to include home office overhead in your instant contract savings calculations.

d. Government Costs. A prediction of any effects the proposed change would have on costs to the Government, such as Government-furnished property costs, costs related items, and life cycle costs including maintenance and operations.

e. Time Requirement. A statement of the time by which a change order adopting the proposal must be issued so as to obtain the maximum cost reduction. Identify any effect on the contract completion time or delivery schedule.

f. Previous Submissions. The dates of any previous submissions of the proposal, the number of the Government contracts under which submitted, and previous actions by the Government, if known. At a minimum, submit two copies for the ACO and the Contracting Officer. To expedite the process, we recommend you provide at least four copies so we can furnish a copy to the client and Value Engineering Officer for review.

8. Subcontract VE incentive clause. The VE incentive clause requires you to include appropriate VE incentive clauses in all subcontracts of \$65,000 or greater issued by you under your contract. You may include such an arrangement in a subcontract less than \$65,000. Your



implementation and development costs and your subcontractor's implementation and development costs are subtracted from gross savings when computing net or "instant contract savings." Incentive payments to subcontractors may not be subtracted, inasmuch as the clause requires that such payments come from the contractor's, not the Government's, share of savings.

9. Reduced Contract Price Calculation. The incentive clause has a formula for computing the reduced contract price resulting from a VECP. You receive 55% of the savings remaining after subtracting your development and implementing costs (25% for cost-reimbursement contracts) and the applicable Government costs from the gross savings. Government costs for laboratory work, research or outside consultants' fees, or extraordinary Government in-house effort necessary to evaluate a VECP will be deducted in computing the savings to be shared. These costs will be identified as early as possible if they arise, and you will be informed.

10. Collateral Savings. The VE Clause allows you to consider collateral savings in the overall VECP. This means if you can prove a change reduces future costs, such as energy savings or maintenance, you may receive a contract increase for 20 percent of projected savings in a typical year after subtracting offsetting Government costs. These savings may not exceed the present contract price or \$100,000, whichever is greater.

11. Progress Schedule Revision. Once the Government approves your VECP and issues a modification, you have one step left to complete your responsibilities. You must revise your progress schedule of values to reflect reduced costs. The modification you receive should reduce the applicable contract bid item by total instant contract savings, and then create a new pay item for your 55% share of savings (25% for cost-reimbursement contracts). This allows you to request the savings, provided you redistribute reduced costs to complete the work in your progress schedule.

Enclosures

None

